

WALLER LANSDEN DORTCH & DAVIS, PLLC

WALLER LANSDEN DORTCH & DAVIS PLLC
THE CHESAPEAKE BUSINESS CENTRE
1616 WESTGATE CIRCLE SUITE 106
BRENTWOOD TENNESSEE 37027-8019
(615) 844 6212

WALLER LANSDEN DORTCH & DAVIS LLP
AFFILIATED WITH THE PROFESSIONAL LIMITED LIABILITY COMPANY
520 SOUTH GRAND AVENUE SUITE 800
LOS ANGELES CALIFORNIA 90071
(213) 362 3680

D. Billye Sanders
(615) 850-8951
billye.sanders@wallerlaw.com

NASHVILLE CITY CENTER
511 UNION STREET, SUITE 2700
Post Office Box 198966
NASHVILLE, TENNESSEE 37219-8966
(615) 244-6380
FAX (615) 244-6804
www.wallerlaw.com

WALLER LANSDEN DORTCH & DAVIS PLLC
809 SOUTH MAIN STREET
Post Office Box 1035
COLUMBIA, TENNESSEE 38402-1035
(931) 388 6031

October 8, 2004

VIA HAND DELIVERY

Pat Miller, Chairman
C/O Sharla Dillion, Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

Re: Chattanooga Gas Company Actual Cost Adjustment (ACA)
Audit; Docket Number 03-00516
Supplement to Response of Chattanooga Gas Company to
the Energy and Water Division's Compliance Audit Report

Dear Chairman Miller,

On July 9, 2004 Chattanooga Gas Company filed its Response to the Energy and Water Division's Compliance Audit of the actual cost adjustment component of the purchase gas adjustment in the above referenced docket. In further support of its response, Chattanooga Gas Company files the original and 13 copies of the enclosed affidavit of the former employee of Sequent Energy Management, L.P. ("Sequent") who met with the TRA Staff and was responsible for determining the appropriate fee under the bailment agreement.

The affidavit is submitted in response to Staff Audit Recommendations 1 and 2, in support of the Company's position that the \$300,000 annual credit was consistent with the tariff, and reasonable under the circumstances, and that a representative from Sequent and AGL Service Company met with the Staff to explain the bailment agreement and its intended impact on Chattanooga Gas Company customers. Thus, the affidavit further supports the Company's position that Chattanooga Gas Company acted in good faith, that sanctions and/or penalties are not warranted and that the method used to determine the amount to be refunded to customers was fair and reasonable.

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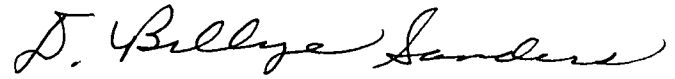
WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

October 8, 2004

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Sincerely,

A handwritten signature in cursive script that reads "D. Billye Sanders".

D. Billye Sanders
Attorney for Chattanooga Gas
Company

DBS/hmd

cc: Archie Hickerson
Bryan Batson
Elizabeth Wade, Esq.
Jeff Brown, Esq.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE:

**CHATTANOOGA GAS COMPANY
ACTUAL COST ADJUSTMENT AUDIT**

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)
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Docket No. 03-00516

AFFIDAVIT OF WILLIAM H. NOVAK

I, William H. Novak, being first duly sworn, depose and state as follows:

1. I have personal knowledge of the facts stated herein.
2. I was Director or Rates & Regulatory Analysis for AGL Services Company from May 17, 1999 until April 1, 2001.
3. I was Vice President of Regulatory Compliance for Sequent Energy Management, L.P. ("Sequent") from April 1, 2001 until July 8, 2003.
4. I am providing this Affidavit pertaining to my former employment with AGL Resources, Inc. in accordance with Paragraph 10 of my Separation Agreement with AGL Resources, Inc. which was entered into as a part of my termination of employment with AGL Resources, Inc.
5. The purpose of this affidavit is to provide information regarding Chattanooga Gas Company's ("CGC") Gas Storage Asset Bailment Agreement (the "Agreement") with Sequent.
6. Under the Agreement, Sequent was to pay CGC \$300,000 annually in exchange for the right to manage CGC's gas commodity and gas contract assets. CGC was then to credit this payment annually to its customers.
7. CGC's tariff at this time required CGC to share 50% of the net gain from off-system sales if and when such sales ever occurred. The \$300,000 payment by Sequent to CGC was in effect equivalent to sharing a \$600,000 gain in lieu of an off-system sale.
8. I was responsible for determining the appropriate bailment fee under the Agreement. In connection with this undertaking, I conducted a review of prior period off-system sales transactions before determining that the

\$300,000 reflected a reasonable sharing of the potential gains associated with Sequent's management of CGC's assets.


9. My review of prior period off-system sales transactions revealed that the \$300,000 payment by Sequent to CGC was approximately 50% greater than CGC's most recent annual off-system sales transactions. In addition, the \$300,000 payment was designed as a market clearing price that would be greater than CGC could anticipate realizing from marketing its own off-system transactions.
10. Along with Archie Hickerson, the AGL Service Company Manager of Rates, I met with Dan McCormac, Chief of the TRA's Energy & Water Division and TRA Staff member Pat Murphy to explain the Agreement and its intended impact on CGC customers.

FURTHER AFFIANT SAITH NOT.


WILLIAM H. NOVAK

This 13 day of August, 2004

Sworn to and subscribed before me
This 13 day of August, 2004



NOTARY PUBLIC

My commission expires: May 28, 2006